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SUBJECT: INDIAN CONGLOMERATE RELIANCE SUSPENDS ITS WEST BENGAL RETAIL PROJECT

REF: NEW DELHI 4076, KOLKATA 91

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11. (U) SUMMARY. Faced with violence against its facilities and growing political opposition to expansion of retail in India, the Reliance Group on September 13 suspended its billion-dollar agricultural retail project in West Bengal. The ruling Communist Party of India-Marxist (CPM) and the W. Bengal Chief Minister are in favor of allowing big retailers to operate, but the opposition parties and some of the CPM's Left allies have taken a hard-line against large investment in the agricultural market that would disrupt the current inefficient and corrupt system, which enriches the local politicians and the numerous middlemen involved. As is often the case in India, the issue is not really about the ideology or the policy, but about who stands to benefit. In this case, the biggest loser may be W. Bengal, as negative signals discourage investment, but the "retail problem" is affecting many other states as well. END SUMMARY.

Reliance throws up its hands

12. (U) The inauguration of Mukesh Ambani's Reliance Industry's USD 1 billion retail project in West Bengal has been suspended after a series of violent protests organized by Leftist political parties (except the ruling Communist Party of India-Marxist (CPM)) and opposition parties. These protests started in mid-August in front of Reliance's department stores around Kolkata. Reliance has now removed products from the shelves of its stores. On September 13, a Reliance contact told Post that although the company faced similar protests in other states, a "lack of enthusiasm" in the W. Bengal government to support Reliance contributed significantly to the company's decision to put on hold its operations in the state.

13. (U) On September 14, at an event organized by the Federation of Indian Chambers of Commerce (FICCI), W. Bengal Chief Minister Buddhadeb Bhattacharjee explained his government's decision to back off despite its earlier enthusiasm. He said, "We should not and cannot stop big retailers. It is my opinion, but unfortunately I am running a coalition government. And that is my problem," placing the blame on his Left Front coalition partners.

CPM Wants Retail with Conditions, Smaller Parties Don't Want
Retail at All

¶4. (U) Although Bhattacharjee is generally in favor of large investment in retail, even his CPM party has specified certain conditions for setting up retail department stores. The CPM would like larger retailers to set up stores outside Kolkata's city limits so as not to take away business from corner shops. The party also does not want large retailers to sell grains, and foreign investment in retail is still a no-go. The position taken by Left Front member Forward Bloc, and the opposition Trinamul Congress and the Bharatiya Janata Party (BJP) is more strident. Senior Forward Bloc leaders told Post that their party was opposed to organized retail per se (not just against Reliance) as "it would destroy the traditional system of marketing."

¶5. (U) The violence employed by the anti-retail elements has been continual and significant. On August 18, activists of the Forward Bloc ransacked a Reliance retail shop in Kolkata. BJP activists ransacked the same shop again on August 26. On August 28, demonstrators "temporarily occupied" a Reliance store at a North Kolkata suburb. On September 6, the students' wing of the Forward Bloc blocked a road in Kolkata, protesting against the company's retail venture. Forward Bloc leader Ashok Ghosh said his party would not allow Reliance to jeopardize the interests of small retailers. Ghosh also wrote a letter to Trinamul Congress president Mamata Banerjee, seeking her support for a joint action against Reliance.

¶6. (U) The West Bengal government's response to these violent protests has been low key. Chief Secretary Amit Kiran Deb said his government would provide protection to the retail chain and complaints lodged in various cases would be "pursued."

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Reliance's decision to stop its retail operations is an indication that the company did not put much faith in these assurances.

The Real Issue is the Agricultural Model...

¶7. (U) While Reliance's stores were coming under attack, it was business as usual for other large retailers operating in West Bengal. No demonstrations were staged in front of stores such as Spencers, Westside, Big Bazaar and C3. Even Metro -- a German chain setting up its cash-and-carry operation in Kolkata -- faced no problem. While Reliance is a new entrant in West Bengal, all the other large retail shops are owned by industrial conglomerates that have previously invested in the state.

¶8. (U) There are two factors driving the opposition against the Reliance venture: First, the Forward Bloc does not want Reliance to buy fruits and vegetables directly from farmers. Moreover, they do not want the company to open retail outlets that would compete with smaller businesses. Significantly, the protests are directed against Reliance because its project involves mostly agriculture retail and will have a direct impact on West Bengal's existing farm marketing practices. The Reliance business model, the Forward Bloc alleges, will introduce a monopoly across the entire supply chain of agricultural produce, disrupting the livelihood of at least 10 million people in their estimates. These people are employed in vegetable wholesale and retail trade, including participants in the approximately 4,500 weekly rural markets in the state.

¶9. (U) West Bengal's existing large retailers have a marginal impact on agricultural trade as vegetables make up only 1-2 percent of their operations. Moreover, these retailers buy their agricultural produce from existing wholesalers in bulk.

This model does not disrupt the existing agricultural supply chain and means more business for wholesalers and intermediaries.

...and Who Benefits

¶10. (U) The current farm-to-plate supply chain of fresh vegetables in West Bengal operates through a web of state regulated rural markets that legally and illegally enrich a host of participants in the system. Farmers sell their produce to wholesalers in these markets at prices determined by local Marketing Committees. To buy from farmers, the wholesalers must have a license from the local Agricultural Produce Marketing Committee (APMC). This license is mandated under the Agricultural Marketing (Regulation) Act, 1972. The Marketing Committees - with representatives from farmers, wholesalers and the state agricultural department -- form an oversight mechanism to protect the farmers and intermediaries from price and quantity speculations. The Forward Bloc runs West Bengal's agriculture ministry and has oversight of the entire agricultural market network. Corruption and payoffs are rampant and common within this system.

¶11. (U) The Reliance project would have set up a parallel procurement network, bypassing the existing one. Reliance planned six agri-distribution and procurement hubs across West Bengal. These hubs were to be housed in 100-acre plots each. Also on the Reliance supply chain were 80 Rural Business Hubs (RBH) and 40 Reliance Town Centers (RTC), each set up on 10-acre plots. The state government, keen to amend the Agricultural Marketing Act to make the mandatory APMC license requirements a mere formality, hoped that easier licenses would encourage private investment in agricultural marketing, dismantle the existing cartels, and reduce the number of intermediaries, thereby releasing value for farmers and consumers. On August 30, around 400 farmers blocked a road near Ukhra (about 100 miles North of Kolkata) in Nadia district to protest against attacks on Reliance shops. The farmers claimed that Reliance paid them more for their produce than the middlemen.

¶12. (U) COMMENT: West Bengal prides itself on its agricultural sector, which remains one of the most productive in India, although nearly 40 percent of produce is wasted due to a lack of adequate cold storage and infrastructure. Historically, the Left parties have found their vote banks among small and local

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farmers and among the various middlemen in the agricultural market chain. Reliance's venture, however, would fracture the Left coalition and its corresponding supporters because a large investment in agricultural retail would result in a situation where farmers (the CPM's constituents) stand to gain at the cost of marketing intermediaries (the constituents of CPM's ally Forward Bloc). Compounding the problem is the policy divergence within the Left Front itself, with smaller parties opposing retail outright. Ultimately, this dispute works against new investment, encourages the status quo, and favors existing interest groups in West Bengal. The "retail problem" is fast becoming a national issue faced by many other states, including Uttar Pradesh, Kerala, Punjab, Madhya Pradesh, and Gujarat.

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